

**WINDELS MARX LANE & MITTENDORF, LLP**

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Proposed Attorneys for Source Enterprises, Inc.,  
Debtor

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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In re:                                     :
                                           :
SOURCE ENTERPRISES, INC.,                 :   Involuntary Chapter 7
11 Broadway, Suite 360                     :   Case No. 06-11707 (AJG)
New York, New York 10003,                 :
                                           :
                                           :   Debtor.
                                           :
Federal Tax Identification                 :
No. 52-1655-283                           :
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**APPLICATION BY DEBTOR TO CONVERT FROM  
CHAPTER 7 CASE TO CASE UNDER CHAPTER 11**

**TO: HONORABLE ARTHUR J. GONZALEZ,  
UNITED STATES BANKRUPTCY JUDGE**

Source Enterprises, Inc., Debtor, by its proposed counsel,  
Windels Marx Lane & Mittendorf, LLP, as and for its motion,  
pursuant to Sections 348 and 706(a) of the United States  
Bankruptcy Code (the "Code") and Rules 2002 and 9013 of the  
Federal Rules of Bankruptcy Procedure, for an Order converting  
the above-captioned Involuntary Chapter 7 case to a case under  
Chapter 11 (the "Motion"), respectfully represents as follows:

## **BACKGROUND**

1. On July 27, 2006 (the "Petition Date"), three (3) of the Debtor's unsecured creditors, David Villorente, The McMillan Firm and P.C. Mall, Inc. (the "Petitioners") filed an involuntary petition for relief against the Debtor under chapter 7 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York. A copy of the Involuntary Petition is annexed hereto as Exhibit A. Service of the Summons was made on the Debtor on August 1, 2006.

2. The Debtor is the publisher of a magazine dedicated to the "Hip-Hop" music genre known as The Source. The Source's national monthly circulation is approximately 352,000 copies which generated revenues from newsstand and subscription sales and advertising of approximately Five Hundred Thousand (\$500,000.00) per month.

3. Approximately two (2) years prior to the Petition Date, the Debtor defaulted on two (2) loans made to it by (i) Textron Financial Corporation ("Textron"), a secured creditor, and (ii) Black Enterprise/Greenwich Street Corporate Partners, L.P. ("BE/GS"), a preferred shareholder, creditor and one of the Debtor's investors.

4. With respect to BE/GS, the Debtor agreed to amend its Certificate of Incorporation to allow BE/GS to enlarge the

Debtor's board of directors and elect a sufficient number of directors to fill the vacancies of the newly enlarged board to give BE/GS the majority, in the event that the Debtor defaulted on the Textron loan. Subsequent to the Debtor's default on the Textron loan, BE/GS exercised its rights under the Debtor's Second Amended and Restated Certificate of Incorporation (the "COI") and elected four (4) directors of the seven (7) directors authorized by the Debtor's By-Laws. These directors are Messrs. Ed A. Williams and Jeffrey Scott from BE/GS, Earl "Butch" Graves, Jr. from Black Enterprise Magazine and Ivan Hopkins, an employee of BE/GS.

5. Textron commenced a U.C.C. foreclosure action on (i) the Debtor's trademarks and tradenames and (ii) on the shares, representing eighty (80%) percent of the Debtor's outstanding shares, owned by David Mays a former President of the Debtor ("Mays"), in the Supreme Court of the State of New York, New York County, captioned *Textron Financial Corporation v. Source Enterprises, Inc, Source Entertainment, Inc., Source Holdings, LLC, Source Magazine, LLC, The Source.com, LLC, Source Sound Lab, LLC, Source Merchandising, LLC, Source Entertainment, LLC, Source Music, LLC, Source Broadcast Media, LLC and David Mays*, Index No. 603410/05 (the "Textron Action"). During the pendency of the Textron Action, the N.Y. Supreme Court entered an order authorizing Textron to sell at auction the Debtor's trademarks

and tradenames and the shares of the Debtor Textron held as collateral security for its loans to the Debtor.

6. Subsequent to the commencement of the Textron Action, Mays filed a voluntary chapter 7 bankruptcy petition in the United States Bankruptcy Court for the District of New Jersey in an attempt to forestall the sale by Textron of his shares in the Debtor. However, the New Jersey Bankruptcy Court entered an Order lifting the automatic stay imposed by section 362(a) of the Code. Textron then scheduled an auction sale of the shares and trademarks/tradenames for 10:00 a.m. on July 27, 2006. Prior to the auction sale, the Petitioners filed their petition against the Debtor instituting the above-captioned involuntary chapter 7 case.

#### **THE INSTANT APPLICATION**

7. The Debtor is seeking the conversion of this Involuntary Chapter 7 case to a case under Chapter 11 as authorized by section 706(a) of the Code which provides that: "(a) The Debtor may convert a case under this chapter to a case under chapter 11...of this title at any time...." Annexed hereto as Exhibits B, C and D are the proposed chapter 11 petition, corporate resolution and List of Twenty Largest Creditors of the Debtor. The Schedules and Statement of Financial Affairs are too voluminous and not annexed as the Debtor has in excess of eight (800) unsecured creditors.

**WHEREFORE**, Source Enterprises, Inc., Debtor, by its attorneys, Windels Marx Lane & Mittendorf, LLP, requests that the court enter an Order converting the above-captioned chapter 7 case to a case under chapter 11 and for such other and further relief as this Court deems just and proper.

Dated: New York, New York  
August 21, 2006

Yours, etc.

**WINDELS MARX LANE & MITTENDORF, LLP**

By: 

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**A Member of the Firm**

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